

Message Text

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PAGE 01 TOKYO 13192 01 OF 02 011027Z

14

ACTION EB-07

INFO OCT-01 EUR-12 EA-09 ISO-00 AID-05 CIAE-00 COME-00

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1985

TREASURY DEPT WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 13192

PASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - AUG 26 THRU SEP 1

1. SUMMARY: INDUSTRIAL PRODUCTION ROSE 1.2 PERCENT IN JULY BUT PRODUCERS' SHIPMENTS WERE UNCHANGED; IT WAS SECOND MONTH IN LAST THREE IN WHICH PRODUCTION INCREASE HAS OUTPACED RISE IN SHIPMENTS. NEW CONSTRUCTION ORDERS ROSE IN JULY, AND THIRD CONSECUTIVE MONTHLY INCREASE IN ORDERS PLACED BY PRIVATE FIRMS INDICATES RECOVERY OF THIS SECTOR FROM SECOND QUARTER SLUMP IS NOW COMPLETE. TOKYO CPI FELL 0.9 PERCENT IN AUG, LARGEST MONTHLY DROP IN NEARLY FIVE YEARS. AVERAGE PROPENSITY TO SAVE ROSE SHARPLY IN JUNE TO RECORD FIRST INCREASE IN FIVE MONTHS. BILL DISCOUNT RATE LOWERED 0.25 PERCENT TO 7.5 PERCENT ON SEP 1; CALL RATE REMAINS UNCLASSIFIED

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PAGE 02 TOKYO 13192 01 OF 02 011027Z

UNCHANGED. BOND YIELDS ON OTHER HAND CONTINUED TO DECLINE

IN AUG. NATION'S LARGEST AUTO MAKER, TOYOTA, HAS REPORTED RECORD ANNUAL EARNINGS FOR A JAPANESE CORPORATION. END SUMMARY.

2. INDUSTRIAL PRODUCTION REGISTERED HEALTHY INCREASE IN JULY BUT SHIPMENTS WERE UNCHANGED ON SEASONALLY ADJUSTED BASIS, ACCORDING TO PRELIMINARY FIGURES. INDEX OF MINING AND MANUFACTURING PRODUCTION (JEI 212) ROSE 1.2 PERCENT IN JULY. HEAVY AND CHEMICAL INDUSTRIES, WHICH HAD BEEN LAGGING BEHIND OTHER SECTORS DURING FIRST HALF OF THIS YEAR, DISPLAYED STRENGTH IN JULY ON S.A.HBASIS; NON-FERROUS METALS ROSE 4.3 PERCENT, CHEMICAL OUTPUT WAS UP 4.2 PERCENT, AND PRODUCTION IN IRON AND STEEL INDUSTRY ROSE 2.7 PERCENT. INDEX OF PRODUCERS' SHIPMENTS (JEI 239) WAS UNCHANGED FROM PRIOR MONTH ON SEASONALLY ADJUSTED BASIS. HOWEVER, FAILURE OF SHIPMENTS TO INCREASE IN JULY WAS ENTIRELY ATTRIBUTABLE TO DROP IN SHIP DELIVERIES; EXCLUDING SHIPS, PRODUCERS' SHIPMENTS IN MINING AND MANUFACTURING INDUSTRIES ROSE 1.0 PERCENT. SHIPMENTS OF INDUSTRIAL MACHINERY INCREASED 2.9 PERCENT FROM PRIOR MONTH AND SHIPMENTS OF IRON AND STEEL PRODUCTS ROSE 2.1 PERCENT. ON THE OTHER HAND, SHIPMENTS OF PETROLEUM AND COAL PRODUCTS DROPPED 5.6 PERCENT IN JULY AFTER RECORDING 6.5 PERCENT INCREASE IN PREVIOUS MONTH. PRODUCTION AND SHIPMENTS OF ROAD MOTOR VEHICLES CONTINUED TO ADVANCE IN JULY WITH PRODUCTION UP 0.9 PERCENT AND SHIPMENTS UP 5.6 PERCENT FROM PRIOR MONTH. RATIO OF PRODUCERS' INVENTORY OF FINISHED GOODS TO SHIPMENTS (JEI 253) ROSE 0.6 PERCENT ON SEASONALLY ADJUSTED BASIS. FOR ADDITIONAL DETAILS SEE TOKYO 12927. (INDEX 1970-100, S.A.; PERCENT CHANGEHFROM PRIOR MONTH IN PAREN).

	MIN. AND MFG. PRODUCTION	PRODUCERS' SHIPMENTS	INVENTORY TO SHIPMENTS RATIO
MAY	123.9 (-1.8)	128.8 (0.2)	123.1 (-0.1)
JUNE	125.5 (1.3)	130.7 (1.5)	120.0 (-2.5)
JULY	127.0 (1.2)	130.7 (0.0)	120.7 (0.6)

3. NEW CONSTRUCTION ORDERS ROSE IN JUNE RAISING PROSPECT OF CONSTRUCTION REVIVAL. CONSTRUCTION ORDERS PLACED BY GOVT AND PUBLIC AGENCIES (JEI 324) INCREASED 6.8 PERCENT UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TOKYO 13192 01 OF 02 011027Z

FROM PRIOR MONTH ON SEASONALLY ADJUSTED BASIS AND WAS MORE THAN 10 PERCENT ABOVE MONTHLY AVERAGE FOR FIRST HALF. CONSTRUCTION ORDERS PLACED BY PRIVATE FIRMS (JEI 325, S.A.) ROSE 9.5 PERCENT TO REGISTER THIRD STRAIGHT MONTHLY INCREASE. CONTINUING RISE IN PRIVATE CONSTRUCTION ORDERS INDICATES THIS SECTOR HAS NOW FULLY RECOVERED FROM SECOND QUARTER SLUMP. OUTLOOK FOR GOVT/PUBLIC ORDERS, HOWEVER, IS LESS CERTAIN; CURRENT POLITICAL TURMOIL AND UNCERTAINTY AS TO TIMING OF

DIET PASSAGE OF GOJ BOND FINANCING LEGISLATION MAY PREVENT
LARGE INCREASES IN PUBLIC WORKS DURING THIRD QUARTER.
(BIL YEN; PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

	GOVT/PUBLIC	PRIVATE
MAY	232.2 (51.5)	219.3 (3.4)
JUNE	207.8 (MIN 10.5)	223.3 (1.6)
JULY	221.9 (6.8)	244.5 (9.5)

4. TOKYO CPI FELL SHARPLY IN AUGUST. THE 0.9 PERCENT
DECLINE IN INDEX OF CONSUMER PRICES FOR TOKYO METROPOLITAN
AREA (JEI 422) WAS LARGEST MONTHLY DROP IN NEARLY FIVE
YEARS. DECLINE IN INDEX (WHICH IS NOT SEASONALLY
ADJUSTED) CENTERED ON SEASONAL ITEMS; PRICES OF FRESH
FRUIT DECLINED 16.3 PERCENT FROM PRIOR MONTH, VEGETABLE
PRICES DROPPED 4.8 PERCENT, AND CLOTHING PRICES FELL 4.6
PERCENT. THE UNUSUALLY SHARP DECLINE IN CLOTHING PRICES
WAS ATTRIBUTED BY OFFICIALS TO SLOW SALES OF SUMMER CLOTHING
AS A RESULT OF UNUSUALLY COOL WEATHER. NEVERTHELESS, PRICE
DECLINES WERE REGISTERED FOR A NUMBER OF NON-SEASONAL ITEMS
AND PRICE INDEX EXCLUDING SEASONAL ITEMS DECLINED 0.4
PERCENT FROM PRIOR MONTH. OFFICIALS AT PRIME MINISTER'S
OFFICE, WHICH PUBLISHES INDEX, WARNED THAT AUGUST DECLINE
MAY BE CALM BEFORE THE STORM. NOTHING CONTINUING ADVANCE
IN WPI AND PROSPECT OF FURTHER INCREASES IN ELECTRIC POWER
RATES, OFFICIALS SAID UPSWING IN CPI WAS LIKELY IN COMING
MONTHS.

	TOKYO CPI (1970-100)	PERCENT CHANGE FROM PRIOR MONTH
JUNE	187.6	0.6
JULY	188.1	0.3
AUG	186.4	MIN 0.9

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PAGE 01 TOKYO 13192 02 OF 02 011035Z

14
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CEA-01 /102 W
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R 010902Z SEP 76
FM AMEMBASSY TOKYO
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TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
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UNCLAS SECTION 2 OF 2 TOKYO 13192

5. AVERAGE PROPENSITY TO SAVE ROSE SHARPLY IN JUNE TO RECORD FIRST INCREASE SINCE JAN SEASONALLY ADJUSTED AVERAGE PROPENSITY TO SAVE (JEII363) WAS 22.6 PERCENT OF DISPOSABLE INCOME IN JUNE. ALTHOUGH THIS WAS HIGHEST LEVEL IN THREE MONTHS, SECOND QUARTER AVERAGE PROPENSITY TO SAVE WAS STILL WELL BELOW THAT OF PRECEDING QUARTER. JUNE DATA MAY HAVE BEEN AFFECTED BY BONUS PAYMENTS WHICH ARE MADE IN THAT MONTH AND JULY AND FOR WHICH PROPER SEASONAL ADJUSTMENT IS OFTEN DIFFICULT. HOWEVER, IF AVERAGE PROPENSITY TO CONSUME CONTINUES TO RISE IN COMING MONTHS, THIS WOULD CLEARLY HAVE ADVERSE IMPACT ON DOMESTIC DEMAND. GRADUAL DECLINE IN AVERAGE PROPENSITY TO SAVE DURING FIRST HALF OF 1976 HAS PLAYED MAJOR ROLE IN GRADUAL INCREASE IN CONSUMER EXPENDITURE

AVERAGE PROPENSITY TO SAVE, S.A.

PERCENT OF DISPOSABLE
INCOME

1975 OCT-DEC AVG 21.8

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PAGE 02 TOKYO 13192 02 OF 02 011035Z

1976 JAN-MAR AVG 23.6

APR-JUNE AVG 21.8

APR 22.3

MAY 20.6

JUNE 22.6

6. BILL DISCOUNT RATE WAS LOWERED BY 0.25 PERCENT, EFFECTIVE SEPTEMBER 1, WHEREAS CALL RATES REMAINED UNCHANGED. AS RESULT, BILL DISCOUNT RATE NOW STANDS AT 7.50 PERCENT PER ANNUM WHILE CALL RATE (UNCONDITIONAL) HAS REMAINED AT 7.25 PERCENT PER ANNUM SINCE JULY 22. POSTPONEMENT OF CALL RATE CUT, IN CONTRAST TO NORMAL PRACTICE OF REFLECTING SEASONAL EASE IN CREDIT DEMAND, WAS PARTLY DUE TO DELAY IN TRANSFERRING BUDGETED FUNDS TO LOCAL GOVERNMENT. MOF OFFICIALS HAVE BEEN STRUGGLING WITH TIGHT FINANCIAL POSITION SINCE SPECIAL BILL AUTHORIZING ISSUANCE OF DEFICIT-FINANCING BONDS HAS NOT YET RECEIVED DIET APPROVAL DUE TO DOMESTIC POLITICAL TURMOIL. COMPARED TO YEAR EARLIER, SHORT-TERM

MONEY RATES HAVE BEEN LOWERED ONLY MODERATELY THIS YEAR. DURING MONTH ENDING SEP 1, CALL AND BILL RATES WERE REDUCED BY MORE THAN ONE PERCENT LAST YEAR WHEREAS THIS YEAR ONLY BILL DISCOUNT RATE DECLINED BY 0.25 PERCENT. CALL BROKERS SAID SLOW DECLINE IN SHORT-TERM MONEY RATES THIS YEAR REFLECTS BOJ'S STRONG CONCERN ABOUT RISING PRICES.

7. TOYOTA MOTOR COMPANY, NATION'S LARGEST AUTO MAKER, HAS REPORTED RECORD ANNUAL EARNINGS FOR JAPANESE CORPORATION. AIDED BY SURGE OF EXPORTS, TOYOTA'S CURRENT EARNINGS FOR 12-MONTH PERIOD ENDING JUNE 30 TOPPED YEN 184.2 BIL (APPROX #635 MIL AT CURRENT EXCHANGE RATES). AFTER TAX, EARNINGS WERE YEN 99.5 BIL (\$343 MIL). THESE FIGURES REPRESENT RESPECTIVE INCREASES OF 71 PERCENT AND 62 PERCENT OVER PREVIOUS ACCOUNTING YEAR DURING PAST YEAR TOYOTA'S TOTAL PRODUCTION ROSE 7.4 PERCENT TO REACH 2.4 MIL UNITS; EXPORTS SOARED 34.9 PERCENT TO ACCOUNT FOR 43.6 PERCENT OF TOTAL OUTPUT. ONE FACTOR CONTRIBUTING TO LARGE INCREASE IN EARNINGS APPEARS TO BE TOYOTA'S STRONG CAPITALIZATION AND TOTAL ABSENCE OF LONG-TERM DEBT. NEWS REPORTS INDICATE THAT INTEREST COST ON EACH AUTO PRODUCED AT TOYOTA IS VIRTUALLY NIL WHEREAS INTERST COST PER AUTO PRODUCED IS ABOUT YEN 20,000 AT NISSAN (DATSUN) AND YEN 50,000 AT TOYO KOGYO (MAZDA).
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PAGE 03 TOKYO 13192 02 OF 02 011035Z

8. BOND YIELDS CONTINUED TO DECLINE IN AUGUST AND RATE OF DECLINE ACCELERATED SLIGHTLY FROM PRIOR MONTH. GOJ BOND YIELDS RECORDED SECOND STRAIGHT MONTH OF DECLINE, BUT THIS DID NOT REFLECT ACTUAL MARKET DEMAND, ACCORDING TO TOKYO STOCK EXCHANGE ANALYSIS. IN FACT, YIELDS ON THOSE GOJ BONDS CARRYING LONGER MATURITY PERIODS HAVE BEEN RISING. NEVERTHELESS, AVERAGE GOJ BOND YIELD WAS PULLED DOWN DUE TO SPECIAL TRANSACTIONS BY DEALERS ON BONDS NEARING MATURITY. DECLINES IN YIELDS ON OTHER BONDS (TELEPHONE AND TELEGRAPH BONDS AND CORPORATE BONDS), HOWEVER, DID REFLECT ACTUAL MARKET DEMAND. BOND PURCHASES BY SMALL-SIZED FINANCIAL INSTITUTIONS INCREASED RAPIDLY AFTER MID-AUGUST, TSE SPECIALIST REPORTED. HEAVY BOND PURCHASES BY NON-RESIDENTS MAY ALSO HAVE AFFECTED AUG BOND MARKET, THOUGH DEGREE OF IMPACT IS NOT YET KNOWN. (TOKYO 12833, PARA 8).

BOND YIELDS, YIELDS TO MATURITY
(YIELDS IN PERCENT; AT MONTH-END)

	TELEPHONE AND	CORPORATE
GOJ BONDS	TELEGRAPH BONDS	BONDS
JUNE	8.774 9.198	8.934
JULY	8.758 9.095	8.889
AUG	8.717 8.952	8.832

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